

# Report of the auditor general to Limpopo provincial legislature and the council on Musina Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Musina Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognise Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa 2003, (Act No 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2016 (Act No 3 2016) (DORA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' Code of ethics for *professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Material uncertainty related to going concern/financial sustainability

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. Note 55 to the financial statements indicates that the municipality incurred a deficit of R1 872 426 (2016: deficit R70 100 413), the municipality's current liabilities exceeded its current assets by R169 945 314(2016: R138 246 717).

## **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Restatement of corresponding figures**

9. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error discovered in the financial statements of the municipality at, and for the year ended, 30 June 2017.

## **Material impairments**

10. As disclosed in notes 2 and 3 to the financial statements, material impairments to the amount of R4 348 850 and R24 412 227 were made to receivables from exchange transactions and receivables from non-exchange transactions respectively, as a result of irrecoverable debt.

## **Unauthorised expenditure**

11. As disclosed in note 40.1 to the financial statements, unauthorised expenditure to the amount of R37 836 990 that was incurred in prior years, was not investigated.

## **Fruitless and wasteful expenditure**

12. As disclosed in note 40.3 to the financial statements, fruitless and wasteful expenditure to the amount of R17 046 589 (2016: R19 740 544) was incurred and not investigated.

## **Irregular expenditure**

13. As disclosed in note 40.3 to the financial statements, irregular expenditure to the amount of R31 362 412 (2016: R93 783 835) was incurred and not investigated.

## **Other matter**

14. I draw attention to the matters below. My opinion is not modified in respect of this matter.

## **Unaudited disclosure notes**

15. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Responsibilities of the accounting officer for the financial statements**

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

17. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

### **Report on the audit of the annual performance report**

#### **Introduction and scope**

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

<b>Development priorities</b>	<b>Pages In the annual performance report</b>
Development priority: KPA 2: Social and justice	74 – 76
Development Priority: KPA 4: Municipal viability and management- focus area: revenue management	87 - 88
Development priority: KPA 5: Basic services	91 – 94

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

## **Development Priority: Key Performance Area (KPA) 2 - Social and justice**

### **Reported indicators and targets not consistent or complete when compared with planned indicators and targets**

#### **Kilometres of road markings performed**

25. The indicator was not reported while the indicator was approved as kilometres of road markings performed in the service delivery budget integrated development plan (SDBIP). This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

#### **Various targets**

26. The targets below were reported as X while the targets were approved as Y in the Service Delivery Budget Integrated Development Plan (SDBIP). This is not in line with the requirements of section 41(c) of the MSA.

<b>Reported indicators per APR</b>	<b>Initial target</b>	<b>Revised target</b>
Number of firearms and pouches purchased	250 000	15
Kilometres of road markings performed	20	0

#### **Changes to indicators or targets not approved**

#### **Kilometres of road markings performed**

27. The indicator was changed without the necessary approval as required by section 25(2) of the MSA.

#### **Various targets**

28. The targets for the indicators listed below was changed without the necessary approval as required by section 25(2) of the MSA.

<b>Reported indicators per APR</b>	<b>Initial target</b>	<b>Revised target</b>
Number of firearms and pouches purchased	250 000	15
Kilometres of road markings performed	20	0

#### **Performance indicators are not well-defined**

#### **Various indicators**

29. The source information, evidence and method of calculation for the achievement of the listed planned indicators were not clearly defined, as required by the *Framework for Managing Programme Performance Information* (FMPPI).

- Number of established helpdesk
- Kilometres of all traffic routes
- Number of new enrolments on the housing waiting list
- Number of learner's licence tests administered
- Number of speed checks conducted
- Number of patrols conducted
- Number of road blocks conducted

- Number of arrive alive campaigns conducted
- Number of crime prevention workshops held
- Food parcels, groceries, clothing and blankets
- Number of satellite office visits
- Number of MoU reviewed
- Kilometres of road markings performed

**Performance indicators do not relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives.**

**Number of new enrolments on the housing waiting list**

30. There was no clear and logical link between the below listed indicator and target and the strategic objective to which it relates, as required by the FMPPI. The indicator and related target focused on having the waiting list, while the strategic objective aimed to improve the quality of lives through social development and provision of community services.

**Reported achievement did not agree with the evidence provided, i.e. not valid and/or accurate and/or complete**

**Various indicators**

31. The reported achievements of the indicators listed below were misstated, as the evidence provided did not agree with the reported achievements as follows:

Reported indicators/ measures per APR	Reported actual achievement per APR	Audited target
Number of established helpdesk	1	0
Number of parks maintained in Nancefield	8	2

**Reported achievement not supported by sufficient appropriate audit evidence**

**Various indicators**

32. I was unable to obtain sufficient appropriate audit evidence for the below reported achievement of targets. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Reported indicators/ measures per APR	Reported actual achievement per APR	Audited target
Kilometres of all traffic routes	19km	0km
Number of new enrolments on the housing waiting list	1200	0
Number of resuscitation town parks	1	0

**Development Priority: Key Performance Area (KPA) 4 – Municipal Viability and management\_ Focus Area: Revenue Management**

**Reported target not consistent or complete when compared with planned target**

**Number of revenue enhancement strategy developed**

33. The planned target as per the annual performance report was set at 1, whilst the target was approved as 0 in the SDIBP. This is not in contravention of the requirements of section 41(c) of the MSA.

### **Changes to indicators or targets not approved**

#### **Number of revenue enhancement strategies developed**

34. The planned target in annual performance report was changed to 1 without the necessary approval as required by section 25(2) of the MSA

### **Performance indicators are not well-defined**

#### **Various indicators**

35. The source information, evidence and method of calculation for the achievement of the following planned indicators were not clearly defined, as required by the FMPPI.

- Number of awareness campaigns conducted for payment services
- Free services
- Number of awareness campaigns for meter reading
- Percentage of households with access of basic level of water, sanitation electricity and solid waste removal
- Percentage of households earning less than R1 100 per month with access to free basic services
- Number of revenue enhancement strategy developed
- Number of monthly billings
- Irrecoverable debts written off
- Convert all conventional electricity metres for residential properties to prepaid

#### **Various indicators**

36. I was unable to obtain sufficient appropriate evidence that clearly defined the predetermined source information, evidence and method of collection to be used when measuring the actual achievement for the below indicators, as required by the FMPPI. This was due to a lack of technical indicator descriptions and documented system descriptions. I was unable to test whether the indicators were well-defined by alternative means.

- Percentage of households with access of basic level of water, sanitation electricity and solid waste removal
- Percentage of households earning less than R1 100 per month with access to free basic services

### **Performance indicators not verifiable**

#### **Various indicators**

37. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the listed indicators, as required by the FMPPI. This was due to a lack of technical indicator descriptions and documented system descriptions. I was unable to validate the existence of systems and processes by alternative means.

- Percentage of households with access of basic level of water, sanitation electricity and solid waste removal
- Percentage of households earning less than R1 100 per month with access to free basic services

**Performance indicators do not relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives within the focus area: revenue management.**

#### Various indicators

38. There was no clear and logical link between the listed indicators and targets and the strategic objective to which it relates, as required by the FMPPI. The indicator and related target focused on the provision of basic services, while the strategic objective aimed to enhance compliance with legislation and improve financial viability.

Indicators	
Percentage of households with access of basic level of water, sanitation electricity and solid waste removal	100%
Percentage of households earning less than R1 100 per month with access to free basic services	100%

#### Reported achievement not supported by sufficient appropriate audit evidence

#### Various indicators

39. I was unable to obtain sufficient appropriate audit evidence for the below reported achievement of targets. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments to the reported achievements were necessary.

Reported Indicators/ measures per APR	Reported actual achievement per APR	Audited target
Free services	12	1
Number of Awareness campaign conducted for payment services	4	0
Percentage of households with access to basic level of water, sanitation electricity and solid waste removal	100%	0
Percentage of households earnings less than R1100 per month with access to free services	100%	0

#### Development Priority: Key Performance Area (KPA) 5 – Basic Services

#### Performance indicators are not well-defined

#### Various indicators

40. The source information, evidence and method of calculation for the achievement of the planned indicator was not clearly defined, as required by the FMPPI.

Indicator within SDBIP	Indicator in APR	Target in APR
Number of samples blue & green drop water quality standard	Number of samples blue & green drop water quality standard	138
Percentage of clean, maintain and reconstruction of hydraulic structure	Percentage of hydraulic structures cleaned	100%

Indicator within SDBIP	Indicator in APR	Target in APR
Routine blading & re-gravelling of internal roads in ward 1-6.	Kilometres of routine blading and re-graveling of internal roads in ward 1 to 6	300km
Storm water drainage and bridge maintenance (cleaning)	Number of km of storm water drainage and bridge maintenance (cleaning)	0,7km
Km road to be constructed by concrete paved Matswale Ext.8, 14 and phase 1	Km road to be constructed by concrete paved Matswale Ext.8, 14 and phase 1	2km
Number of sport centres to be constructed in Nancefield Ext 5 and phase 2	Number of sport centres to be constructed in Nancefield Ext. 5 and phase 2	1
Number of Madimbo sports centre phase 2	Number of Madimbo sports centres to be construction (phase 2)	1
Number of client help centre constructed	Number of client help centre constructed	1
Number of storm water channel constructed in Nancefield	Number of storm water channel constructed in Nancefield	1
Re-gravelling of Tshipise/Mataitane road	Km of Tshipise/Mataitane road constructed	7,1km
Number of speed-humps constructed	Number of traffic calming structures and pedestrian crossing redesign and reconstructed	5
Maintenance of MLM fleet	Maintenance of operational of equipment's fleet and machineries	8
Maintenance and purchase of municipal air conditioning system	Maintenance and purchase of municipal air conditioning system	10

**Performance indicators do not relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives.**

#### Various indicators

41. There was no clear and logical link between the below listed indicators and targets and the strategic objective to which it relates, as required by the FMPPI. The indicators and related targets focused to produce an updated waiting list, whilst the strategic objective aimed to to improve the quality of lives through social development and provision of community services.

Indicator	Target
Number of samples blue and green drop water quality standard	138
Number of planned and maintenance work conducted (water supply annually)	20
Number of planned and maintenance work conducted (sanitation annually)	12

#### Performance indicators were not verifiable

#### Percentage of hydraulic structures cleaned

42. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator, as required by the FMPPI. This was due to a lack of technical indicator descriptions. I was unable to validate the existence of systems and processes by alternative means.

**Reported achievement did not agree with the evidence provided, i.e. not valid and/or accurate and/or complete**

**Various indicators**

43. The reported achievements of the indicators listed below were misstated, as the evidence provided did not agree with the reported achievements:

Reported indicators/ measures per APR	Reported actual achievement per APR	Audited target
Number of sport centres to be constructed in Nancefield Ext 5 and phase 2	1	0
Number of client help centre constructed	1	0
Number of planned and maintenance work conducted(sanitation annually)	12	10

**Reported achievement not supported by sufficient appropriate audit evidence**

**Various indicators**

44. I was unable to obtain sufficient appropriate audit evidence for the below reported achievement of targets. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Reported indicators/ measures per APR	Reported actual achievement per APR	Audited target
Percentage of hydraulic structures cleaned	100%	0
Kilometres of routine blading and re-graveling of internal roads in ward 1 to 6	300km	0
Number of km of storm water drainage and bridge maintenance (cleaning)	0,7km	0 km
Distance of replacement of copper to aluminium conductor done (Nancefield Ext. 7 replacement of copper to aluminium conductor)	8,5km	3.2km
Maintenance of operational of equipment's fleet and machineries	8	6

**Other matters**

45. I draw attention to these matters below.

**Achievement of planned targets**

46. Refer to the annual performance report on pages 74 to 76; 87 to 88; 91 to 94 for information on the achievement of planned targets for the year and explanations provided for the under and overachievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 33 to 62 of this report.

**Adjustment of material misstatements**

47. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2 – social

and justice, KPA 4 – municipal viability and management\_ focus area: revenue management, KPA 5 – basic service development priority's. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## **Report on audit of compliance with legislation**

### **Introduction and scope**

48. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

49. The material findings on compliance with specific matters in key legislations are as follows:

### **Consequence management**

50. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA

51. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA

52. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA

### **Expenditure management**

53. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

54. Effective steps were not taken to prevent irregular expenditure amounting to R31 362 412 as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused

- Due to consistent deviations from the procurement processes (invitations of three written quotations, increase to bidding price, and no relevant contract or tender documentation) that were approved on the basis of it being an emergency, while it was possible to comply with the requirements or where proper planning would have prevented the deviations.
- Due to consistently incorrectly participating in a contract secured by another organ of state per paragraph 32 of Municipal Supply Chain management regulation.

55. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R17 046 589, in contravention of section 62(1)(d) of the MFMA.

### **Strategic planning and performance management**

56. The SDBIP for the year under review did not include the monthly operational and capital expenditure by vote, and the service delivery targets and performance indicators for each quarter as required by section 1 of the MFMA.

57. The performance management system and related controls were not maintained as it did not describe/adhere to how the performance measurement, review and improvement processes should be organised and managed, as required by municipal planning and performance management regulation 7(1).

### **Annual financial statement and annual report**

58. The annual performance report for the year under review did not include a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1)(b) of the MSA.

59. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

### **Other information**

60. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.

61. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

62. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

63. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

### **Internal control deficiencies**

64. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for my opinion, the findings on

the annual performance report and the findings on compliance with legislation included in this report.

### **Leadership**

65. Leadership's review did not detect or prevent the risk of material misstatements to the annual financial statements and performance information. The slow response by leadership to resolve recurring findings and its inability to follow a pro-active approach have resulted in material misstatements in financial and performance reporting.
66. The municipality's efforts to address the cash flow and liquidity challenges did not yield the desired results challenges, which lead to going concern and financial viability difficulties.

### **Financial and performance management**

67. Senior management did not adequately oversee the operations of the municipality, as the annual financial statements and annual performance report contained material misstatements that were not detected by the municipality's own system of internal control.
68. The municipality's management of records was inadequate in keeping performance information that supported the reported information. This included information that related to the collection, collation, verification, storing and reporting of actual performance information.

Potokwane

30 November 2017



*Auditing to build public confidence*

## Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

### Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer’s.
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Musina Local municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### **Communication with those charged with governance**

3. I communicate with the executive mayor, audit committee and accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the executive mayor, audit committee and accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.